

MILBANK, TWEED, HADLEY & McCLOY LLP

601 SOUTH FIGUEROA STREET

THIRTIETH FLOOR

LOS ANGELES, CA 90017-5735

213-892-4000

FAX: 213-629-5063

DIRECT DIAL NUMBER

(213) 892-4563

EMAIL: kmcsadden@milbank.com

FRANKFURT

49-69-7593-7170

FAX: 49-69-7593-8303

TOKYO

813-3504-1050

FAX: 813-3595-2790

HONG KONG

852-2971-4888

FAX: 852-2840-0792

SINGAPORE

65-428-2400

FAX: 65-428-2500

NEW YORK

212-530-5000

FAX: 212-530-5219

WASHINGTON, D.C.

202-835-7500

FAX: 202-835-7586

PALO ALTO

650-739-7000

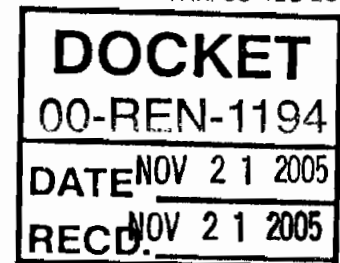
FAX: 650-739-7100

LONDON

44-171-448-3000

FAX: 44-171-448-3029

November 21, 2005



VIA FEDERAL EXPRESS

California Energy Commission Dockets Unit

Attn: Docket No. 00-REN-1194

1516 Ninth Street, MS-4

Sacramento, CA 5814-5512

Re: Comments of Vulcan Power Company; Docket No. 00-REN-1194

Dear Sir or Madam:

Please find enclosed the Response of Vulcan Power Company to be offered into evidence as part of the record compiled for the above-captioned proceeding.

Thank you for your assistance with this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin McSpadden". The signature is fluid and cursive, with a large, stylized "K" and "M".

Kevin McSpadden

Enclosure

In the matter of:

Docket No 00-REN-1194

Workshop On the Staff Draft Report
On 2006 Renewable Energy Investment Plan

**COMMENTS OF
VULCAN POWER COMPANY**

Vulcan Power Company ("Vulcan") pursuant to the California Energy Commission's ("Commission") Notice of Renewables Committee Workshop on the 2006 Renewable Energy Investment Plan, respectfully submits its written comments on that Draft Report.

Vulcan is a developer of geothermal and biomass baseload generation resources in the Western region of the United States, particularly focused upon supplying California utilities from resources in California and adjacent states. Vulcan has executed power purchase agreements with Southern California Edison Company ("SCE") to supply up to 120 MW of geothermal power and up to 22 MW of biomass power. First are three general comments which are then followed by specific recommendations.

1. Vulcan has roughly estimated that as much as 400 MW to perhaps 500 MW of new geothermal and biomass baseload power will be selected by the three California Investor Owned utilities through their combined renewable power solicitations from 2002 through year-end 2005. It is possible that this company may be wrong in this estimate but the situation bears watching through Q1, 2006 as final Request For Proposals results are filed with power policy agencies.
2. Vulcan realizes that some stakeholders are skeptical that power in such aggregate amounts can be developed. We have heard in multiple workshops some stakeholders dismissive of the process citing various allegations the RPS process has failed and is in need of drastic and immediate overhaul. We do not concur with that assessment. Indeed, it does seem at least some of the detractors have their own favorite programs where they want to take money from the existing renewables SEPs and waste more funds on new and uncompetitive processes and projects. This must not be allowed.
3. It has also become apparent that this negativity also comes in part from other developers and their partisans on the CEC staff who favor massive long term new transmission line investments requiring new rights of way instead of dealing with new transmission planning and policy needs to support identified sources of near term renewables, the so called "low hanging fruit". The CEC staff has virtually ignored input from geothermal developers, including Vulcan, aside from Tehachapi wind and the Imperial Valley and the solar lobby seeking more funds to prove unprovable economics.

The balance of these comments focus upon items relevant to multiple projects coming out of the 2002-2005 renewables solicitations.

4. This is not the right time to make any major changes to the investment program in terms of MPR and SEPs administration at least not until after all 2002-2005 renewable contract selection results are filed with the agencies, likely through Q1, 2006.

5. The MPR should be adjusted now, literally in December or January latest, for the new round of 2005 contracts and not later or "timed" until such period when the gas prices may be somewhat lower seasonally. As Vulcan advised the CEC nearly a year ago, it might consider and be prepared for what MPR pricing would be and the SEP process would look like with California average annual delivered gas prices for "apples to apples" comparison to renewables when new gas-fired fuel is above \$8.00 per mcf.

In the late 2005 words of a Nevada PRG commissioner who was formerly the Governor's energy advisor, "All renewables below \$ 0.075 per kWh are a bargain are they not?" The head of contracts for NPC in open workshop agreed that yes they are.

With realistic new MPR pricing, not plagued by overly conservative gas forecasts in line with a priori agenda instead of real world gas pricing, more likely than not new baseload geothermal and other non-solar renewables will not require SEP payments or will require lower SEPs if the CEC acts to bring the MPR in line with the market. The net effect, of course, could be greater SEP coverage and substantial new baseload renewables. It is very clear that existing renewables provide much greater "bang for the buck" than unproven renewables. SEP funds are nowhere close to enough to bring PV costs down.

6. The unused existing renewables SEPs, if any, should be kept available to support later existing renewables if: (a) MPR gas prices come way down for whatever reasons; or (b) projections by Simmons International investment banking firm in Houston and others are incorrect and the LNG "too cheap to meter" gas projects actually materialize in five or six years and become market low price leaders instead of small impact higher price takers in North American and California gas markets.

7. It appears that geothermal baseload and biomass baseload power will continue to provide on the order of 60% of new renewables in the near term. It is going to be interesting to see what happens with the up to 800 MW of solar projects starting at 30 MW. If those economics are as elastic as the proponents state, solar may capture new market share but that will be a wait and see exercise bearing in mind the LUZ plant. In the meantime there are multiple geothermal and biomass projects coming to market soon.

8. Vulcan requests that the CEC come to near term decisions on the following issues which appear unresolved regarding SEP administration:

- (a) how are 10 year SEP payments to be allocated for 20 year PPA contracts;

- (b) Since some announced PPA contracts have project staging in phases, which MPR calculations will apply to the initial phases of PPA contracts and which MPR calculations will apply to follow-on payments?
- (c) How will later phase SEP projects be paid for if the MPR and SEP program is later abolished or substantially modified which could make the phases unfinancable?
- (d) Exactly how are this round of SEP payments to be made, e.g., to the utility or developer?
- (e) A smaller matter but important, will the plant owner be reimbursed for lost output?

9. Regarding the vexing transparency issues, Vulcan is inclined to trust the regulatory agencies at the appropriate senior level with confidential pricing data after execution of industry standard NDAs with developers if that will assist the determination of near term policy making.

10. Having said that we would very much appreciate direction from commissioners that future renewables reports include an open effort to not only take comments from broad group of developers but actually utilize the comments in staff policy making.

It is our opinion after nearly 3 years of intense effort in development and implementation of the RPS that the "not invented here syndrome" sometimes gets in the way of CEC staff policy. We request that henceforth developers be invited in to help make policy at the beginning instead of relying on self-anointed "industry experts" who don't have their own dimes or nickels involved making real word investment decisions. A mix of developers and consultants on an even-up basis will result in better long range plans.

Respectfully submitted,


Steve Munson, CEO *all*
Vulcan Power Company
1183 NW Wall Street
Suite G
Bend, OR 97701

541-317-1984
541-317-2879 (fax)
smunson@vulcanpower.com